

ARUBA: PLANNING AN INDEPENDENT FUTURE

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- PREVIEW AND SUMMARY -

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ARUBA: PLANNING AN INDEPENDENT FUTURE  
- PREVIEW -

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'Aruba: Planning an Independent Future' is the first comprehensive economic Development Plan for the Island of Aruba. It looks ahead to the end of the century at possible development paths for the Island as she reaches for full Independence. The Plan identifies key components of the economy and recommends specific actions to be taken by the Government and private institutions as a Medium-Term Plan for the Island.

The Island's economy, and its major sectors of oil and tourism and commerce, are remarkably healthy, reflecting good fortune and pragmatic policies. This strength in the economy should continue. Any judgement on the future of the economy must be made against the background of a troubled world situation. However, Aruba is fortunate in that she has no overwhelming problems to contend with, and onto which all attention must be directed. The Island has been favoured, in the past, by economic and political stability and, as long as this can be maintained, the outlook is good, especially if certain policies are implemented now, as an important basis for future development.

Income from tourism and oil may be expected to provide continued growth in the economy, but this does not automatically ensure full employment, a sufficient level of Aruban participation in the economy, or a socially cohesive distribution of income. To ensure this, the Government must adopt a social policy appropriate to the demographic, cultural and regional needs of the Island.

Small Island economies, by their nature, are sensitive to external events over which they have little control; and the economy of the Island should be made more robust, both by increasing the diversity within the present activities (e.g. tourism), and through new opportunities (e.g. off-shore oil and business services). Further, certain bottlenecks in labour and capital markets and in public services have to be dealt with if maximum benefit is to be



gained from available resources.

The possibility of continued large oil revenues, gives the Government the opportunity to build up a strong finance base and skilled human resources for the long-term assurance of all inhabitants of the Island.

At the international level, there are a number of development alternatives open to the Island which go beyond the issue of Independence. Policies which lead to a high international profile for the Island, will enhance her stature within the region and help to secure her a long-term territorial integrity. Any recommendations here, for the Island, must confront two major sets of uncertainties: the first comes from the predicament of the world economy; the second from details of the Aruban Independence negotiations which are as yet unresolved.

Although small Islands are unable to take advantage of many economic possibilities (e.g. economies of scale), their rather compact nature gives them the potential to respond rapidly to changing events, and to take advantage of new possibilities. Given these aspects, rigid planning is clearly inappropriate for Aruba. While a commitment to realistically balanced social and economic objectives is essential, planning mechanisms must be able to adapt to changing events.

The Plan Document lays out the arguments and recommendations for present policy, and sets out some alternatives for the longer term. The layout of the Plan is as follows:

Section 1 outlines the style of planning, and planning institutions needed in Aruba. Section 2 looks at the domestic economy of Aruba and its relationship to the world political economy. Section 3 considers some alternative long run development paths for the Island.

Sections 4 and 5 describe in turn the Private and Government Sectors of the economy, while Sections 6 to 10 analyse specific issues of importance, including those mentioned above. Sections 11 and 12 make calculations to show the impact of various policy instruments on the economy; while Section 13 provides the strategic guidelines within which the detailed recommendations of Sections 14 to 16 should operate.

Section 14 gives recommendations for policies towards the Private Sector, with specific recommendations for particular industries. Section 15 suggests policies to increase the level of Aruban participation in the economy, and looks at Government fiscal and economic policy towards the Foreign Sector, including Development Aid. Section 16 makes recommendations about policy for the Government and





the Social Sectors.

Finally, Section 17 brings together all these recommendations, and shows that they indeed provide a basis for the balanced development for the Island.

A Summary of the Plan has also been prepared, and this presents the main findings and recommendations of the Macro-Economic Development Plan.



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ARUBA: PLANNING AN INDEPENDENT FUTURE  
- SUMMARY -

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1. PLANNING FOR ARUBA

This is a summary of the Macro-Economic Development Plan for Aruba. The Plan suggests specific actions on the part of Government and private institutions, which should be the foundation for medium and long-term planning in Aruba. It provides a diagnosis of the Island which draws on previous data and studies of Aruba and the Netherlands Antilles. Although the Plan is concerned principally with internal economic policy, it does not ignore the important interrelated political and social dimensions, both internal and external, to the Island. The relationship between such elements and their relationship to the Plan, are summarised in Table 1.

The ability of a small economy to react quickly and confidently to change may be its most important planning attribute. Thus a principal aim of the Plan is to provide an apparatus with which day-to-day decisions by both public and private sector in Aruba can be made and evaluated. It should provide information which will help private individuals and enterprises make better decisions and show developments to which Government has to respond for the benefit of the whole community.

At the Round Table Conference of March 1983, in The Hague, a 'Status Aparte' beginning in 1986 and the future Independence for Aruba in 1996, were agreed in principle. The precise conditions for the Independence are not yet known, but they will affect the details of many policies linked to the macro-economic Plan. These include policies with respect to investment, employment and social objectives, all of which are key planning variables.

An additional factor which complicates planning for Aruba, or any other country, for the next years is uncertainty over the working through of the present worldwide economic slowdown, which has now affected all industrialised economies, whether market or socialist, and most developing countries, including now even the oil rich capital exporting nations.



Whatever the uncertainties over the future, some issues have to be dealt with in any case by the Island. First, there are specific problems to be resolved; these include bottlenecks in the supply of capital, uneven service by public utilities, lack of mobility in the labour market, insufficient skills and labour productivity, and a more systematic planning of Government spending; few Governments are not confronted by such problems. Second, there are strategic decisions to be taken, such as the encouraging of diversification of the economy within sectors or the planned opening up of new sectors. Third, there is additional preparation needed for possible new opportunities, such as the discovery of exploitable offshore oil deposits.

The main proposals in this document imply that Aruba will move to considerably greater self-determination in the long term and, on this basis, the implications of a number of alternatives are examined.

## 2. THE STRENGTH OF THE ARUBAN ECONOMY

The available data suggests that Aruba has experienced rather strong economic growth in the years 1975 to 1983, this is significantly higher than Curacao and most other Caribbean Islands. Other indicators of domestic economic well-being, such as the supply of public utilities, housing, education, show Arubans again to have a rather favourable situation. On other indicators too, including the level of unemployment and the degree of diversity in the economy Aruba compares favourably with other Islands.

Overall the conclusion can be drawn that the economies of Aruba and even the other Islands of the Netherlands Antilles, are strong relative to most other Islands in the Caribbean. In many respects it is the relative rather than absolute strength of countries which is most important for their growth prospects. For example, with the great many problems of international debt in the world community, international funds are being redirected to relatively stronger peripheral economies. Aruba should, nevertheless, take heed from the experience of other small territories.

Present trends in the principal sectors, show that there are reasons overall to be optimistic about the possibilities for future economic growth in the Aruban economy. In the leading sectors of oil and tourism, prospects are generally favourable, although several external factors introduce uncertainties. The possibilities for increased income from other activities are also fair and, in addition, the Island can expect to





TABLE 1.

INFLUENCES ON THE MACRO-ECONOMIC PLAN FROM EXTERNAL AND INTERNAL CHANGE.

	ECONOMIC ENVIRONMENT AND POLICY	POLITICAL INSTITUTIONS	SOCIAL CHANGE AND OBJECTIVES
EXTERNAL CHANGE	<p>Working through of world economic crisis.</p> <p>Potential demand for oil products, tourism and other services from Aruba.</p>	<p>Restructuring of world political order</p> <p>Negotiated conditions for independence from Holland and the Netherlands Antilles</p>	<p>Changing social and income distribution systems.</p> <p>Changing attitudes towards tourism, off-shore activities, interdependence.</p>
INTERNAL DEVELOPMENT	<p><u>Long-Term</u></p> <ul style="list-style-type: none"> <li>- Evaluate trends and sensitive areas in economy;</li> <li>- Clarify development objectives;</li> <li>- Identify major bottlenecks in employment, capital, public services.</li> </ul> <p><u>Medium-Term</u></p> <ul style="list-style-type: none"> <li>- Recommendations for new activities in public and private sector;</li> <li>- Arrangements for foreign investment, development aid, economic security.</li> </ul> <p><u>Institutional</u></p> <ul style="list-style-type: none"> <li>- Recommendations for continued planning function;</li> <li>- Monitoring, revision and implementation of plans.</li> </ul>	<p>Decentralisation of administration to Island Government.</p> <p>Evolution of political system on the Island.</p>	<p>Social needs for housing, health, social welfare, education.</p> <p>Cultural traditions and diversity of population and regional development.</p>



receive development aid from Holland for at least another decade. If most of these possibilities are realised, then the Island can anticipate a period of continued prosperity.

With the present level of geo-political uncertainty, it makes sense to take advantage of the favourable opportunities presented at this time, in order to build up a solid insurance against the possibility of less favourable circumstances in the future. The Plan seeks to ensure that Aruba is in the best position to do this.

The constraints on development arise from the size and location of the Island and the resultant economic, political and cultural dependence, and sensitivity of the Aruban economy to external events. However, we do not wish to exaggerate these factors, as to some extent, the possibilities for development also come from these same factors, including the relative political stability of the Island through its links with the outside world. The way in which these external links are fashioned in the future will determine the future social and regional domestic distribution of the Island, and vice versa.

### 3. THE STRUCTURE OF THE ECONOMY

In order to plan for the Aruban economy, we must first understand how it functions. Very simply, the economy of Aruba is driven by three major external forces. Two of these are the leading sectors of oil refining and tourism. The third is development aid. Apart from a small amount of export earnings from the rest of the economy (such as transport) and the embryonic off-shore sector, there are few other (official) foreign exchange earnings for the Island.

The economy is pulled along by these external driving forces. Growth in the oil sector, tourism or aid creates additional growth in the rest of the economy. As long as these continue to contribute income, the overall economic growth is largely assured. If these sectors show adverse trends, then the level of economic activity throughout the Island would decline. This decline would come not just from a loss of income from the oil and tourism sectors directly, but also from the loss of direct and indirect income in the rest of the economy and Government.

This very simple picture reflects the historic economic evolution of the Island: the establishment of the LAGO oil refinery and more recently the tourist industry. It shows also the contribution of development aid to the infrastructure needs and social balance of the Island. And in addition, reflects the change in the regional shift in





the focus of the Island's economy from San Nicolas to Oranjestad.

There are several other key features of the economy. First, all sectors of the economy are highly dependent on imports. The oil sector depends on a politically sensitive supply of oil, the tourist sector imports far more merchandise than it purchases in the rest of the economy, while most of what is sold by the latter is imported with relatively little additional processing. With the single exception of construction (and public utilities), the Aruban economy is especially weak in the production of its own basic needs. This is partly due to the size of the Island and the lack of resources in Aruba; and partly to the fact that, over the years, labour has left traditional production activities for the better pay and life style of other sectors.

Second, much of the economy is not owned by Aruba. Tourism and especially oil, have been built largely on the basis of foreign investment and consequently a high proportion of the operating surplus leaves the economy. This is also true of household savings and the funds from pension and insurance schemes.

In many respects the Aruban economy is not different from most other peripheral economies, developed or developing. However, it is different in its dependence on rather few and vulnerable external sources and on the size of these external factors relative to the rest of the economy. Despite this, by comparison with most other Caribbean Islands, Aruba is very fortunate in having three 'legs' to stand on. Few other Islands have the bonus of a high income from oil, successful tourism and a high level of development aid.

#### 4. GOALS OF PLANNING

It is evident that in broad terms, in the future economic planning of Aruba, attention must be given to five key issues. These are:

- (1) to seek new opportunities for economic development;
- (2) to strengthen existing economic activities;
- (3) to establish a resilience against adverse political and economic changes - both external and internal;
- (4) to strengthen social cohesion within the community;
- (5) to increase local participation in the economy.



As far as possible the way in which these goals are achieved should be mutually reinforcing, since this will ensure that best use is made of limited resources.

In the Plan some changes to the economy are explored, and recommendations made which should further help to achieve these goals. These include:

1. Recommendations for Major Production Sectors:

- (i) new directions in the tourist industry;
- (ii) a rationalisation of existing energy policy and a more future oriented approach;
- (iii) viable projects in non-oil industry and agriculture;
- (iv) some adjustments in the trading sector - the core of the domestic economy;
- (v) encouragement of business service sector activities.

2. Key Policy Issues:

- (i) the encouragement of local Aruban-owned small and medium scale production activities, including construction and services;
- (ii) policy for fiscal and other incentives;
- (iii) adjustments with respect to consumer credit, mortgaging and financing arrangements, pension schemes, overseas deposits and foreign investment;

3. Public Sector Policy:

- (i) a rationalisation of Government activity;
- (ii) the role of development aid in the future economy of the Island;
- (iii) changes to the structure of household distribution and expenditure;
- (iv) an up-grading and mobilisation of underutilised human, economic and physical resources on the Island.





## 5. RECOMMENDATIONS FOR PRODUCTION SECTORS

### Tourism:

The main proposals for the tourism sector are broadly in line with those of the Aruba Tourism Plan, except that a greater degree of diversification in the style of tourism, including an 'Aruban style', based on local resources, skills and capital, is envisaged. In addition, there should be greater diversification of markets (as a hedge against fluctuating fortunes of the major tourist markets) and greater regional diversification within the Island, to eliminate the over-dependence of parts of the Island on single industries. The main recommendations are shown in Table 2.

Some specific legislation or policy is required from Government. The hotel industry should be required to set up or participate in establishing a code of standards (possibly in conjunction with an international body). Tax regulations for new condominium style developments should be revised, since present concessions are not as justified as for regular hotels. The new Hotel School must be viewed as a key component in Aruba's drive to maintain standards and its performance should be regularly monitored in this respect, and with respect to its ability to train students in potential top management roles. More stringent environmental standards for the upkeep of tourist areas (and elsewhere) should be enforced through legislation if necessary.

A more Aruban style of tourism must ensure that all new construction in the industry is designed to be within the competence of local contractors. In addition, the concept of 'craft villages' in conjunction with locally owned small hotels and apartments, should be explored.

Although there may be insufficient justification for a separate conference centre or exhibition hall in Aruba, the Island Government should investigate the possibility of combining these functions in a multi-purpose centre which includes activities for the local community. The interests of the local community should also be protected through the preservation of certain non-commercialised beaches and countryside.

The Tourist Board/Authority, should widen its monitoring of tourist related activities, and deepen its analytic investigation to advise on cost structures and pricing policy for different segments of the market.

### Energy Related Issues:

Few specific recommendations are made with respect to the LAGO oil refinery. Everthing possible should be done to



TABLE 2.

TOURIST SECTOR: SUMMARY OF RECOMMENDATIONS

ASPECT	PROPOSAL
MAIN PROPOSALS	<p>Plan on basis of 'paced development' scenario of Tourism Development Plan.</p> <p>Diversify markets, style of tourism and regional location within Island.</p> <p>Foster 'Aruban-style' tourism based on local resources, skills and capital.</p>
SPECIFIC LEGISLATION AND SUPPORT	<p>Encourage code of standards for service, catering etc.</p> <p>Develop facilities of Hotel Training School.</p> <p>Hotel designs compatible with local construction capacity.</p> <p>Revise tax legislation for condominium operations.</p> <p>Develop 'craft village' concept.</p> <p>Upgrade visual environment.</p> <p>Negotiate for new beaches.</p> <p>Preserve some non-commercial beaches.</p>
FUTURE MONITORING AND ANALYSIS	<p>Tourist Board/Authority to investigate cost structures and pricing policy in relation to price elasticity of demand for different market segments.</p> <p>Evaluate multi-purpose conference centre/exhibition hall/Island community centre.</p>





ensure that there is maximum participation by local contractors in the future investment projects of the company in Aruba. On the other hand, it is not recommended that there should be direct financial involvement in the refinery by the Island Government. Available resources are better invested in other activities. It is strongly recommended, however, that tax revenues from the refinery are utilised for the long term assurance of the Island, and only in part employed to supplement other current account income.

The Island Government must constantly strengthen its capacity to negotiate claims for all aspects of exploitation of off-shore oil since, again, income from this source can underpin a long-term 'insurance policy' for the whole community. The benefits must be spread over the lifespan of existing and even of future generations of Arubans. The social impact of new found oil wealth will be great and the Island should learn from her own past experiences (the growth of the oil refinery) and from those of other oil rich countries. It is recommended that a study of possible socio-economic effects be prepared.

#### Public Utilities: Energy and Water:

The Island is very dependent on oil energy for fuel, electricity and drinking water. Even if off-shore oil is exploited, these are likely to have a very limited lifetime, and the Island should adopt a more forward looking strategy. A new pricing policy for energy related commodities is recommended and, in addition, legislation with respect to the distribution of electricity should be changed. The authorities should systematically monitor alternative sources of production for electricity and water, in particular, wind power, ocean thermal energy conversion and solar distillation. Finally, as an environmental necessity, it is strongly recommended that a refuse sorter/incinerator be installed on the Island. The proposals for energy policy are summarised in Table 3.

#### Non-Oil Industry and Agriculture:

With a healthy economy, but with limited export possibilities and limited domestic market and local resources, the possibilities for new areas of industrial production (including agriculture) are restricted. However, there are some commercially viable possibilities and it is recommended that these be investigated further (see Table 4). Pre-feasibility studies have been carried out for a glass container plant, a brewery, a cement plant, and a fertiliser plant. Given the high wage economy and near-full employment, any new industry must be capital intensive. Low wage, labour intensive industries are to be





TABLE 3.

ENERGY RELATED ISSUES: RECOMMENDATIONS FOR POLICY

ASPECT	RECOMMENDATION OR CONCLUSION
OIL REFINING	<p>Working assumption that refinery will remain as profitable enterprise on the Island, providing 1000 jobs locally in 1990.</p> <p>Increased investment in new technology after 1985.</p> <p>Island Government should not employ financial resources in refinery.</p> <p>Revenues from refinery should be utilised for long-term benefits of the Island.</p>
OFF-SHORE OIL	<p>Prepare alternative economic policy based on different assumptions about extent of resources.</p> <p>Increase training in negotiation for exploration, exploitation and investment.</p> <p>Ensure that benefits of revenues are spread over time.</p> <p>Prepare study of possible socio-economic effects.</p>
ELECTRICITY AND WATER	<p>Adopt forward looking strategy to reduce dependence on oil.</p> <p>Implement pricing incentive and subsidy policy.</p> <p>Install refuse incinerator.</p> <p>Monitor new technologies in wind, ocean thermal energy conversion and solar distillation.</p> <p>Change legislation on electricity distribution.</p>



avoided under present conditions.

For agriculture, it is less certain that enterprises can be commercially viable in Aruba. However, agriculture may be desirable for other reasons, and animal protein or hydroponic projects could be candidates for support from a Social Equity Fund, which it is proposed should be set up as an arm of the Aruba Development Bank.

The Social Equity Fund is to enable the Bank to fulfil its economic and social policy objectives in its support of new enterprises, as well as strictly commercial objectives. The size of the Social Equity Fund must be restricted by the size of the current account balance and accumulated surplus of the Island Government.

A further recommendation is that a Technology Advisory Service be set up (drawing on the expertise of international agencies) to widen the sources from which Aruban entrepreneurs draw their technology, and so reduce present under-utilisation of capital which is prevalent, especially, in small firms on the Island. To assist further in this respect, some recommendations are made concerning the establishing of plant hire firms and co-operatives for the sharing of equipment which be supported by the Development Bank.

#### Commerce and Trading:

The trade sector of Aruba is especially strong and self-sustaining, and few specific recommendations are made other than those considered necessary to reduce market imperfections and other bottlenecks. These are shown in Table 5. Previous efforts in this direction have met with limited success. It is recommended that the Island Government should support one or more non-profitmaking co-operative marketing arrangements (which would, in part, function as a social service), and that an import monitoring agency be set up with an auxiliary function of advising on pricing policy and legislation in conjunction with an information unit (to monitor the consumer protection legislation in a number of major countries). The containerisation of international trade is likely to have a significant impact on smaller merchants, and these could be helped through the fostering of public or private sector consolidation agencies. If the new Aruban container harbour is to become a commercially viable project, the organisation must be systematically refined. If it is successful, then it can contribute to the Island's overall geo-political strategy.





TABLE 4.

NON-OIL INDUSTRY AND AGRICULTURE: SUMMARY  
OF RECOMMENDATIONS

ASPECT	RECOMMENDATION
OVERALL STRATEGY	<p>Recognise limited potential for expansion; but some exportation and import substitution activities are commercially viable.</p> <p>Support high wage/capital intensive production.</p> <p>Seek new sources of technology.</p> <p>Treat agriculture as an experimental sector.</p>
SPECIFIC ACTIVITIES	<p>Pre-feasibility studies suggest the following manufacturing industries are viable in Aruba:</p> <ul style="list-style-type: none"> <li>i. brewery for local and tourist market using available technology in Europe;</li> <li>ii. glass containers using waste containers and supplying soft drinks and disinfectant manufacturers and brewery;</li> <li>iii. cement plant using new Asian technology;</li> <li>iv. fertilizer (mainly for export) if off-shore gas deposits are exploited.</li> </ul> <p>In agriculture as experimental projects with subsidies:</p> <ul style="list-style-type: none"> <li>i. animal protein from chicken and swine;</li> <li>ii. vegetable production via hydroponics.</li> </ul>



TABLE 5.

COMMERCE AND TRADING: SUMMARY OF RECOMMENDATIONS

ASPECT	RECOMMENDATION
STRATEGIC POLICY	<p>Reduce market imperfections and bottlenecks.</p> <p>Upgrade personnel skills and wage levels.</p> <p>Container harbour to become integral part of overall Island geo-political strategy.</p>
SPECIFIC ACTIVITIES	<p>Consolidation agencies to assist with shift to containerisation in region.</p> <p>Co-operative enterprises with specific social role in economy working in conjunction with credit unions.</p> <p>Set up import and monitoring agency, and consumer information unit advising on protective legislation.</p>



### Business Services and Off-shore Activities:

The business services sector in Aruba has potential as a source of foreign income, and also one which should have an increased share of local participation. The smallness of the economy and economies of scale in enterprises, are less relevant in this sector than in other production, in particular, manufacturing. It is especially important that Arubans should take a greater share in the professional activities on the Island, and an advisory body should be set up to investigate how this can be ensured. The level of off-shore banking and holding company activities on the Island are likely to increase. A review panel with wide terms of reference (including an appreciation of the foreign policy repercussions) should be set up to investigate Aruban participation in these areas. These recommendations are summarised in Table 6.

### 6. ARUBANISATION OF THE ECONOMY

Through the Aruba Development Bank, the Island Government is making a special effort to encourage small and medium sized Aruban owned firms. For this reason, particular attention has been paid to the role that these firms, especially, play in the economy.

A number of recommendations are made concerning the need to relieve various bottlenecks in finance, technology and the provision of skilled labour. In a small Island, matching supply and demand is inevitably difficult and so a dynamic and flexible approach is needed. A key requirement that is identified with respect to private sector policy, is the achieving of a balance in the size and number of competing firms. First, efficiency in the use of economic resources has to be balanced against the potential oligopolistic (or even monopolistic) behaviour of enterprises. Second, an increase in the level of Aruban participation in the economy is paramount, but innovation inducing competition from the foreign sector must also be encouraged. Aruban firms should receive support via the Development Bank and a proposed Technical Advisory Service, and inducements for greater workforce training should be stimulated by the Island Government.

The conflicting objectives of the Development Bank could be dealt with through the setting up of a Social Equity Fund, upon which the Bank could draw in order to support socially desirable projects, which do not meet the stringent criteria for commercial viability. Small enterprises in Aruba could receive greater encouragement and, as a matter of course, should be required as partners in joint ventures for development aid and public sector infra-structure projects. The informal sector too should receive encouragement and policies must be designed to ensure that the economy, as a whole, gains from this activity, and that the skills of informal sector participants can systematically improve. These proposals are summarised in Table 7.





TABLE 6.

BUSINESS SERVICES AND OFF-SHORE ACTIVITIES:  
SUMMARY OF RECOMMENDATIONS

ASPECT	PROPOSAL
STRATEGIC POLICY	Develop business services sector as source of foreign income. Increase level of Aruban participation in professional activities. Maximise utilisation of specific Aruban resources.
SPECIFIC PROPOSALS	Set up committee to investigate expansion of off-shore activities. Review Aruban involvement in professional activities. Survey computerisation of economy and educational needs. Review foreign scholarship scheme in light of findings from above.



TABLE 7.

SUMMARY OF RECOMMENDATIONS FOR ECONOMIC POLICY:  
TOWARDS ARUBANISATION OF ENTERPRISES

ASPECT	RECOMMENDATION
BROAD POLICY	<p>Relieve identified bottlenecks in finance, technology and resources.</p> <p>Achieve balance in size of firms (efficient use of resources versus oligopolistic behaviour).</p> <p>Increase level of Aruban participation but maintain healthy level of competition and innovation from foreign sector.</p>
SPECIFIC SUGGESTIONS	<p>Aruban firms receive technical support via proposed Technical Advice Service and workforce training.</p> <p>Legislate for counterpart training by foreign firms.</p> <p>Encourage co-operative plant hire or ownership to improve viability of small firm sector.</p> <p>Joint ventures on major projects to include small firm sector.</p> <p>Systematically up-grade informal sector.</p> <p>Set up a 'Centre of Excellence' for local firms on the Island.</p>





## 7. FINANCIAL SYSTEM

Some changes are required in the financial system in Aruba. The potential for local investment is not realised for a number of reasons. In essence these are the result of: i) differences in interest regimes in the Antilles and abroad, ii) a sustained high level of profits and the accumulation of capital which may exceed the absorption capacity of a small island and iii) that institutions and individuals strengthen their portfolio by keeping their capital abroad.

As a consequence, there are relatively few long term funds available for small scale entrepreneurs or mortgages for households. Pension funds are largely invested abroad and there is believed to be a steady outflow of household savings and capital from the Island. Low income households are unable to obtain short-term consumer credit through regular channels and resort to money lending facilities. Most available funds are accounted for by traders borrowing to finance the high level of stocks (necessitated, in part, by the shift to containerised shipping of merchandise) or to finance customer credit directly.

The present arrangement is inequitable and has not attracted saving by households. The interest rates of commercial banks should come closer to international levels, so that the rate of interest at which households borrow funds comes closer to the rate at which they receive from deposits. This should ensure that greater proportion of insurance and pension funds from the Island are deposited locally, without these institutional investors damaging the robustness of their portfolio. More long-term funds must become available for mortgages if the high rate of dwelling construction achieved in recent years, is to be maintained. It is important to maintain the level of activity in this sector since it provides significant employment and direct and indirect income in the economy. The reserve requirement by the Central Bank on commercial banks, should be reduced and the Island Government should stimulate greater competition in the domestic capital market, for example, through support for Credit Unions. These proposals are summarised in Table 8.

## 8. GOVERNMENT ACTIVITIES

With a reasonably healthy economy and the possibility also of income from off-shore oil to secure the long-term future of the society. This should involve two main strategies



TABLE 8.

## FINANCIAL SYSTEM: SUMMARY OF RECOMMENDATIONS

ASPECT	RECOMMENDATION
COMMERCIAL BANKING AND PENSION FUNDS	<p>Set up more uniform and transferable public and private sector pension scheme.</p> <p>Divert part of insurance and pension funds into domestic market.</p> <p>Bring domestic interest rates closer to international rates.</p> <p>Reduce interest rate spread for households.</p> <p>Need to provide longer term funds and mortgages.</p> <p>Encourage greater competition in the domestic capital market (including Credit Unions).</p> <p>Reduce Central Bank reserve requirement on commercial banks.</p>
DEVELOPMENT BANK	<p>Extend role of Development Bank to include a Social Equity Fund which can accommodate economic and social policy objectives as well as commercial criteria.</p> <p>Size of Social Equity Fund to depend on current account balance and accumulated Government deposited funds.</p>





(i) building up the human resources on the Aruban population and (ii) building up the financial reserves. These are in effect an insurance policy for the Island's future.

The first requirement here is to establish an arrangement which guarantees a politically determined balance between the short and long run interests of the community. Few Governments have the funds to pay sufficient attention to the longer term needs of their populations. The economy of Aruba may be more fortunate than most in this respect, but like other small Islands, it is more sensitive to external economic changes as well. Therefore it is especially important to take the opportunity to create a secure as possible long-term prospect.

Short-run expenditure of windfall income should be directed largely towards the building up of human resources on the Island, including those in the Government sector. This should be done with the objective of stabilising the level of employment in the Government sector. With some exceptions due to decentralisation, expenditures on current account by Government should remain constant in real terms. Furthermore, personnel required to staff or maintain new infrastructure projects (considered below), as far as possible, should be drawn from the existing public sector workforce.

These and other Government Sector proposals (including Social Policy) are shown in Table 9.

#### Development Aid:

The expected receipts of low interest development aid from Holland are unlikely to exceed NAF 20 millions each year in the next decade. At this level, the Island is unlikely to encounter any serious long-run debt burden.

A prerequisite must be that the system for evaluating the financial cost of projects should be changed. Apart from the intrinsic social value of the project (eg. employment and training and function) the ratio of the net value added (after repatriation of profits) to the total cost to the Island (the Island contribution plus the cost of aid) should be the principal criterion for judging a project. In this case, the most satisfactory bid will not be automatically the one offered at lowest cost, but that which offers best value for a given expenditure by the Island.

#### Fiscal Policy:

Much of the economic policy which exists in Aruba, has been





TABLE 9.

GOVERNMENT AND SOCIAL SECTOR: SUMMARY OF RECOMMENDATIONS

ASPECT	RECOMMENDATION
GOVERNMENT SECTOR	<p>Underpin long-term future of society,            current account surplus to be used in part to build up funds for long-term economic security of Aruba with complementary strengthening of human resources.            Set up study to restructure institutions and reduce duplication of activities following decentralisation.            Stabilise employment in public sector.</p>
DEVELOPMENT AID	<p>Borrow to full extent of aid possibilities from Holland under present conditions and level of provision.            Balance of infrastructure and social projects funded from Island Government, with anticipated revenues.            Project contracts to be judged on net income to Island economy.            Expand use of regional consultants and insist on freedom of choice of equipment.</p>
SOCIAL POLICY	<p>Detailed sub-targets for social expenditures to depend on findings of Social Plan.            Increase household share of national income.            Maintain full employment policy but phase out T.A.V. system.            Maintain present rate of dwelling construction.            Redesign of education system around specific needs of the Island.            Promote professional, service and maintenance training.</p>



derived from Central Government initiatives designed primarily to confront the economic problems of Curacao. These policies, therefore, do not not always apply well to the present situation of Aruba. The Plan examines the effect of alternative incentive arrangements for different kinds of economic activity in Aruba, and makes some specific recommendations, given in Table 10, concerning tax regulations designed to stimulate investment.

The Island does not need to offer substantial concessions to firms in general, provided major trends in the Aruban economy remain favourable. Certainly, so long as unemployment remains low, the Island should not enter into the 'free for all' competition in the Caribbean to win jobs. For example, the Island should not seek to attract firms which offer only minimum wages, require long tax holidays and monopolistic protection, as well as assistance from the Development Bank. The need is to attract secure higher paid employment which upgrades the professional level of the workforce. However, because the Island is relatively prosperous, it can afford to make concessions towards firms which can offer these opportunities. Thus, whenever the Island Government offers fiscal or equivalent incentives, it must negotiate for items such as local ownership participation, and shop floor and management training.

The difficulties encountered by present tax holiday and protection legislation, and the constraints imposed by policy ties to the Central Government, can be off-set to some extent by rescheduling tax holidays as graduated schemes. In addition, wage tax and sur-tax levels may be adjusted in order to counterbalance the blanket policy of the Central Government. Policy on protection should be revised according to similar principles although, the quota system should be discontinued in favour of graduated tariff arrangements.

An increase in the tax on energy consumption (fuel, electricity and water) is also recommended, but over the period covered (ie. until 1990) all additional revenues are redistributed to promote the adoption of energy conserving devices. The measure is financially neutral until 1990, but of net benefit in the longer run.

## 9. SOCIAL POLICY

### Demographic Change:

The population of the Island in 1980 was approximately 60,000 with a workforce of about 24,000. The total population is likely to increase to 66,940 in 1990 with a





TABLE 10.

FISCAL POLICY: SUMMARY OF RECOMMENDATIONS

ASPECT	RECOMMENDATION
BROAD POLICY	Adopt flexible incentive system which takes account of sectoral development. Strengthen tax department.
SPECIFIC POLICY	Reschedule tax holiday arrangement, move to graduated and flat rate schemes. Use wage tax levels and flexible profit tax as counterbalance to blanket policy applied by Central Government. Clarify objectives for specific sectors. Protection to comprise tariffs rather than quotas.



workforce of 27,000. The proportion of elderly to school age Arubans is increasing.

Consequently, the increase in overall demand for schooling has levelled, while the need for pensions will continue to increase. When the people now entering the workforce reach retirement age, the percentage of pensionable people in the population will have doubled.

#### Job Creation:

The additional jobs required in the private sector can only be created if there is demand for the goods and services it provides. With limited expectations for export, much of the growth in the economy (excluding oil and tourism) comes from increased household demand. This is fundamental to the way the Aruban economy functions. Thus, the wage adjustments proposed in the Plan serve four main purposes: to restore differentials in the economy and so enhance social cohesion, to improve mobility in the workforce, to maintain the level of output and full employment and, principally, to increase real levels of consumption by households.

#### Unemployment:

Unemployment in Aruba is not a major problem. The level of actual unemployment in Aruba, estimated to be between 4% and 6% of the workforce, is relatively low by Caribbean and world standards, while the participation rate is high and increasing. Given relatively full employment and the favourable outlook of the economy as a whole indicated previously, the more immediate concern is that all human resources on the Island are used most productively. The problem in Aruba, therefore, is more one of underutilisation, and workers presently engaged in less productive employment should be encouraged to move to new opportunities provided by development.

The recommendation is made for a more uniform system of pensions and other fringe benefits on the Island. Private sector arrangements should be brought into line with those in the public sector and pensions should be transferable across all sectors. This is necessary for equity reasons and in order to remove a major block to the mobility of labour on the Island. With limited human resources (and nearly full employment) all labour must be fully utilised.

Although originally established to reduce hardship among the unemployed, the T.A.V. has become a structural feature of the Aruban labour market, which should be phased out in a healthy economy and the elderly people moved to a pensioned status.



### Social Distribution:

The extent of economic hardship among households in Aruba should be demonstrated by the Social Plan. Existing data indicates that the real income of many families in Aruba appears to be falling. This has taken place during a period when the economy generally has become increasingly wealthy. A significant worsening of income distribution in the Island may be judged undesirable in terms of social cohesion, if not in terms of social justice. In addition to this, the lack of effective demand in the domestic economy has led to a situation whereby the potential for reinvestment on the Island by firms is not fulfilled. Consequently, the possibilities for economic growth are diminished.

### Cultural and Regional Policies:

In Aruba, as in many societies, it is recognised that different socio-cultural groups cope with, or benefit from, different styles of development with contrasting degrees of success. With respect to the education system in Aruba, it is accepted that Papiamentu speaking children from low income families, particularly, have been disadvantaged in the past because of the use of Dutch as the principle language of formal education. The recognition by the Island Government that the Development Bank should explicitly stimulate small and medium sized Aruban enterprises is another aspect of the cultural dimension in the development of Aruba. The regional development of the Island has also been uneven, and therefore macro-economic development must satisfy the various needs of the population, taking into account regional imbalances as well as cultural factors.

### Education and Training:

A fundamental requirement for the sustained economic and social development of Aruba is that the level of technical and other skills across the Island community be upgraded. Even if the Island was fortunate enough to receive immense income from oil revenues, control over this wealth (and indeed its level) would depend on the know-how possessed by the Island. Further, given that oil reserves are finite, a solid preparation should be made for the time when this wealth is depleted.

It seems essential not to fall deeper into the trap that Aruban development in the past has, to some extent, led to a society with high material aspirations, but without the capacity to control development fully, or achieve the level of productivity necessary to sustain it.





Continued improvements in education and training must be the cornerstone of the development of the Island. The education system must be flexible, and adapt systematically to the changing needs of the Island. Rigid 'manpower' planning is likely to be of little use. At present the Island loses many of its more qualified citizens, and it may be important to establish a small number of 'Centres of Excellence' for research in specialised areas relevant to the economy of Aruba. Further, if the Island is to play an important bridging role between major regions in the world economy, greater use should be made of Caribbean and Latin American region centres of education.

#### 10. A BALANCED ECONOMY

The policies recommended in the Plan are based on judgements about several factors in the economy which are, to some extent, beyond the control of Arubans. This includes, in particular, factors connected with the oil and tourism industries, which are both leading sectors for economic growth. Nevertheless, the judgement made in this Plan is that the outlook for these sectors is favourable. The proposals are implementable in the light of the available resources, and should make a positive contribution to Aruba's economic development. In order to demonstrate this, a scenario for the Aruban economy from 1979 until 1990 has been calculated in the Plan, assuming that the proposals will be implemented.

The recommendations in the Plan are considered to be immediately relevant and implementable within the period up to decentralisation in 1985 or 1986. The precise way in which proposals are effected up to, and beyond, this date depend upon the outcome of the Independence negotiations (for example, with respect to fiscal and monetary policy). The details of any agreements are not taken into account in the proposals. For the longer run, no specific policy recommendations have been made, although a strategy which takes account of the changing structure of the world political economy and which provides Aruba with a comfortable niche within that structure, is recommended.

With the favourable prospects assumed for the leading sectors in the economy, it is certain that policies in which major economic policy objectives are simultaneously achieved, can be found. Without substantial financial resources from abroad, via the leading sectors of the economy, the trade-offs among policy objectives would be considerably more difficult. Nevertheless, the margins for policy, before serious constraints on economic development



become apparent, are wide. This suggests that an equitable balance between income to capital and labour, and a compromise between present and future consumption with full employment, can be devised if different external conditions arise.

#### 11. THE INTERNATIONAL CONTEXT

The Plan evaluates several alternative 'styles of development' for the Island, and the possible evolving geo-political and economic context within which Aruban Independence will be enacted. This is especially important for the long-term future of the Island. While it would be quite unrealistic to take an especially optimistic view of the overall world situation, it must be recognised that in the past, Aruban development has been rapid, even during periods of strife elsewhere. The original situation of the oil refinery on Aruba and the wealth accumulated by the Island during the great depression of the 1930's and the Second World War are the prime examples of this. The growth of tourism, off-shore activities and some service functions today also depend, in part, on social and economic disruptions in other societies. Thus, we should not automatically assume that a poor global outlook implies an equally gloomy future for Aruba, but of course we cannot neglect the relevance of such developments for Aruba.

Just as Aruba's economic success in the past has depended upon its relative political stability, so will its success in the future. This has a self-reinforcing function: provided Aruba has a well functioning and stable society it will attract overseas and local investment and so continue to provide the income necessary for the Island's prosperity.

The delays surrounding the Independence of Aruba from the remainder of the Netherlands Antilles, unfortunately have provoked uncertainties elsewhere, and it is in the interests of all parties that this matter be resolved. It is necessary also that Aruba plans her long-term relationship with neighbours in the region including Venezuela and the other Caribbean Region countries. The fragmentation of the Caribbean has undesirable consequences for all Islands and, in the longer term, Aruba should aim to play a constructive role in the process of Caribbean integration. This would help to secure the independence of the region as a whole and strengthen the position of the separate territories. Similarly, the interest of Venezuela in the rest of the Netherlands Antilles could lead to an opening up of markets and, in particular, provide an easier channel for Aruban trade into Latin America.







The future links with powers outside the region (Holland, the European Community and the United States) also will change, whatever the status of Aruba's Independence. Because of her historic trading links, the oil refinery and now tourism, banking and the new container harbour, Aruba is an economic cross roads of major powers inside and outside the Caribbean region. This facilitates the 'high profile' aspect of Aruba which may be a necessary component of her political integrity.



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ARUBA: PLANNING AN INDEPENDENT FUTURE

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